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URBAN BUSINESS PROFILE

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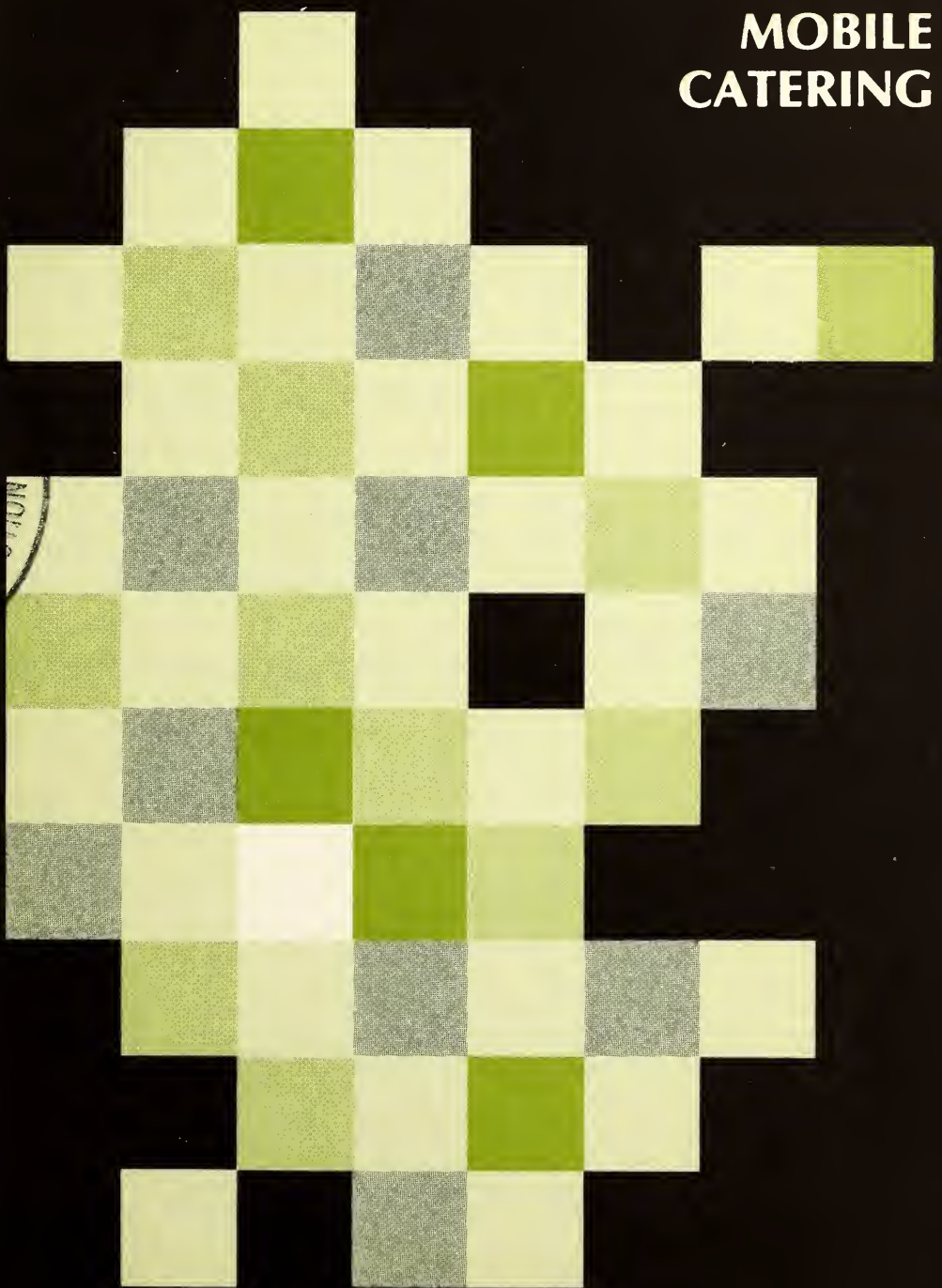

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URBAN BUSINESS PROFILE

MOBILE CATERING

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ECONOMIC DEVELOPMENT ADMINISTRATION
in cooperation with
OFFICE OF MINORITY BUSINESS ENTERPRISE

U. S. DEPARTMENT OF COMMERCE
Washington, D.C. 20230

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FOREWORD

As part of a continuing program to provide encouragement and assistance to small business ventures, the U.S. Department of Commerce is issuing a series of Urban Business Profiles.

It is hoped that these reports will serve as a meaningful vehicle to introduce the prospective small urban entrepreneur to selected urban-oriented businesses. More specifically, a judicious use of these profiles could: provide a potential businessman with a better understanding of the opportunities, requirements, and problems associated with particular businesses; provide guidelines on types of information required for location-specific feasibility studies; assist urban development groups in their business creation activities.

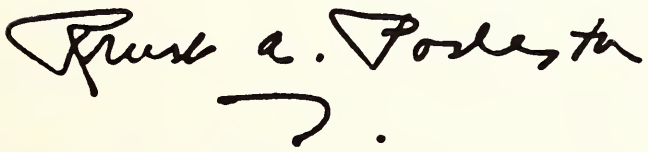

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Table of Contents

	Page
I. Recommendation	1
II. Industry Description	2
A. Identification	2
B. Industry Dimensions	3
C. Industry Characteristics	3
1. Product	3
2. Customer	4
3. Technology	5
4. Competition	6
5. Ease of Entry	7
6. Capital Requirements	8
7. Profitability	9
8. Effects of Outside Factors	11
III. Feasibility Analysis	11
A. Key Factors	11
1. Management	11
2. Service	12
3. Location	12
B. Minority Ventures	12
C. Projection of Attainable Returns	12
1. One-Man Independent Operation	13
2. Small Company Operation	13

BIBLIOGRAPHY/TRADE ASSOCIATIONS

OFFICE OF MINORITY BUSINESS ENTERPRISE (OMBE) AFFILIATES

URBAN BUSINESS PROFILES

URBAN BUSINESS PROFILE

Mobile Catering

(SIC 5812)

I. RECOMMENDATION

Success in the mobile catering industry requires both managerial ability and a technical knowledge of food service operation. While entry may be attempted on a very small scale with little prior experience, at least 1 year of experience is necessary for an operation of moderate to large scale, especially where food product purchasing and preparation is involved. The prospective entrepreneur must have a personality readily adaptable to selling and public relations activities, since he is meeting customers on a recurring basis. Establishing firm agreements with customers and following through with provision of good service is the best insurance for maintaining a route and against loss of sales to competitors.

An awareness of growth patterns in major market segments as well as of current developments in associated food manufacturing industries is an essential part of the mobile catering field. A metropolitan area with high concentrations of industrial locations and with a high construction rate should offer an excellent opportunity for a mobile catering operation. Since labor is significant to the mobile catering industry, careful attention should be paid to determining the availability and proximity of an adequate labor supply.

Investment requirements may be minimal if the operation is begun on a small scale and if a perceptive selection of routes, equipment, and supply location is made. Each year, however, the food service industry accounts for 20 percent of all retail failures, reflecting the necessity for careful planning and some understanding of the industry prior to committing capital and beginning operations.

II. INDUSTRY DESCRIPTION

A. Identification

Mobile catering is one type of fast food operation within the broad field of the food service industry. Food service applies to all types of facilities or operations serving food to people while they are away from home. The food service industry may be broken into three major categories. The largest of these provides meal service to the general public. The second category includes organizations in which meals are prepared and served by employees who are part of the organization, such as a day-care center. The third category covers employee, student, and hospital patient feeding, which has increasingly relied on outside contractors for food service.

Fast food services comprise the major part of the first category and make up the largest portion of the away-from-home food services. Included in fast food operations are coffee shops, cafeterias, snack bars, carryouts, drive-ins, and vending machines. Mobile catering has become an increasingly important form of this fast food service, fulfilling the needs of a particular segment of the food service market.

Mobile catering, Standard Industrial Classification (SIC) 5812, provides food service at locations where, because of the number of employees or the geographical location, vending machines or contract food services are either infeasible or uneconomical. Mobile catering operators today use specially built truck bodies, generally with swing-out doors that cover display trays for food products, urns for liquids, and soft drink storage dispensers.

Mobile catering trucks follow routes that consist of a series of sales stops during the business day. Routes are established for the most part through informal agreements with customers, usually construction companies, businesses, and industrial locations in a given area. The nature of these agreements is such that the particular mobile catering operator will have access to the premises at specified times during the day and on specified days of the week. The operator establishes these contracts by directly contacting the organization and, in effect, selling his services. Once agreements are made, the operator "owns" the route and may lease or sell it to other operators.

The mobile catering truck driver may operate under several conditions. He may be independent, owning his truck and developing his own route. Or he may be semi-independent, owning his truck and leasing a route from a commissary company. Also he may be a contractor, leasing both truck and route from a commissary company. Mobile catering companies are organized to operate a number of routes that they lease to independents, or for which they purchase

their own trucks and hire drivers to utilize some combination of both leasing and working their routes.

Nearly all companies operate out of commissaries, whether trucks are owned by independent routemen or by the catering companies. Most established companies began operating their own commissaries at about the same time they began mobile catering. Those commissary facilities purchase, prepare, package, and dispense food products to route trucks. Commissaries may take one of several forms: (1) total food preparation facilities on the premises; (2) purchase of food from other suppliers and operation as a distributor or wholesaler; and (3) a combination of these two forms, both buying and preparing food for resale.

B. **Industry Dimensions**

The retail value of all food served through food service outlets—restaurants, snackbars, drive-ins, caterers—is currently greater than $27 billion annually, a 56 percent increase in total retail value of meals served away from home since 1960. American families spend an average of $400 to $500 per year on food-away-from-home, an amount equal to approximately 5 percent to 6 percent of the household budget.

Currently, fast food services account for approximately 80 percent of the total $27 billion food-away-from-home dollar value. These fast food operations, of which mobile catering is a part, concentrate on food products served quickly and conveniently, with a relatively low emphasis on such esthetic factors as decor, space, and personal service.

The mobile catering business is a fast-growing component of this fast food industry. Nearly 1,100 operators sold $1.1 billion worth of food products and merchandise in 1970, representing an $80-million increase over 1969 industry sales with a nearly equal number of operators and a $290 million increase over 1968 sales. The number of catering routes similarly expanded from 21,830 in 1969 to 23,271 in 1970. Route sales, however, averaged $171 per day in 1970, as compared with the $181 per day average of 1969. Industry size is growing in terms of employees as well; some 30,000 people were directly employed in the industry in 1970 as compared with 28,400 in 1969.

C. **Industry Characteristics**

1. *Product*

Fast food products are selected and prepared for the customer who is "necessity or convenience food" oriented. Mobile catering food products are primarily frozen and convenience foods, prewrapped

and prepackaged prior to being served to the customer. The following is a breakdown of sales share by product in 1970:

Sandwiches	29.0%
Hot drinks	12.9
Dairy products	12.0
Cold drinks	11.5
Pastries	10.6
Canned entrees	6.4
Commissary prepared foods	5.3
Miscellaneous	12.3
	100.0%

Commissaries purchase the majority of food products sold on trucks directly from the manufacturer or processor; of secondary importance are local suppliers for fresh produce, meat, and similar items. Prepackaged items and convenience products are generally obtained from the manufacturer on a direct basis, and local distributors are of only minor importance.

Mobile caterers' menus are frequently cycled on a weekly, monthly, or quarterly basis. Cycling prevents the serving of identical foods on the same day of consecutive weeks or months or quarters, and cycle menus may be planned and scheduled by commissary managers in the larger operations and by the owner-manager in smaller companies. Several considerations with reference to customers are taken into account when making a selection of foods: (1) average customer age (younger customers tend to buy more dairy products); (2) sex of customers (men tend to prefer heavier foods in larger proportions than women); (3) ethnic composition of customers (menus tend to be reflective of neighborhoods); (4) income levels of customers (high-priced platters tend to sell well only in higher income areas).

Industry sources indicate that usually the only food prepared on the truck is coffee and, in a few cases, sandwiches. Time, health laws, and weather conditions are factors that greatly limit preparation of food on the trucks. The driver salesmen, however, in most cases select the food products they stock in their trucks, since they are in the best position to evaluate the varying tastes and requirements of the customers on each route.

2. *Customer*

Customers of mobile catering services may be considered captive markets in the sense that they require food service not immediately available at their particular locations. That is, they may not be able to leave the worksite and have no internal food service facility or access to eating places close by. Since there are limitations on the types of foods and the manner in which they may be prepared and served in this type of situation, interesting, varied menus and good service are essential to maintaining a route. It is for this reason that

cycle menus have become a more important marketing approach in addition to the advantages of eliminating monotony, time and expense in planning, and buying and preparation of food.

Customers are found at the following types of locations:

	1969
Construction sites	15.20%
Industrial locations (less than 100 persons)	50.30
Industrial locations (more than 100 persons)	27.30
Office	6.40
Parks and recreational areas	0.43
Special events	0.37
	100.00%

As indicated by the chart, industrial locations employing fewer than 100 persons make 50 percent of total industry sales and have retained the lead in sales in the industry through the 1960's.

On the average, a good customer requires about four stops a day—before work, lunch meal, and two coffee breaks.

When determining the market size necessary for operating a route, three factors are usually taken into consideration: the mileage length of the route, the types of location stops available (i.e., construction sites), and the number of stops. These factors determine the sales revenues that may be expected of a potential route.

3. *Technology*

The entrepreneur who begins on a small scale with one truck and one route may require few specific skills to start. However, several abilities are immediately essential. The most important function fulfilled by the independent truckdriver is the selling function, which involves making a selection of food products that have the highest salability value, handling routine cash transactions, and performing public relations type activities on a regular basis. The operator with more than one route and at least one commissary must employ labor and must manage truckdrivers in the performance of all the functions indicated for an independent; he must supervise commissary operations (involving food purchasing, cooking and preparation, packaging, and dispensing to trucks), menu planning, fleet traffic management, and general management functions. The management of a company with fewer than 20 routes will generally find it necessary to perform sales duties as well, including locating, establishing, and maintaining routes. Companies with more than 20 routes employ on the average:

1 management or supervisory employee for every 3 routes;
1 salesman for every 30 routes;
1 maintenance employee for every 5 routes;
1 commissary employee for every 2 routes.

There is a high degree of labor required in nearly all the activities of the mobile catering industry. This feature reflects the importance of labor to the industry and the additional personnel problems and costs that may result. Food preparation facilities may be made more capital intensive as new equipment and methods become available, reducing the need for labor intensity in the commissary operation.

The mobile catering industry, and the fast food industry in general, are relying more and more heavily on prepared foods. Prepared foods are processed products that have undergone all preparation except heating or cooking. Frozen prepared meals is one of the fastest growing categories of prepared foods. This trend is particularly noted in the case of mobile catering, where almost all food products are selected for ease and speed of preparation.

There has been a recent industry trend toward leasing operations. This leads to greater diversity in wage rates within the industry, since commissions on sales constitute a major form of income, and commission rates vary as do the revenues yielded by routes. However, according to U. S. Department of Labor statistics, the 1968 average hourly earnings for employees in eating and drinking places was $1.57. Federal minimum wage laws require operators grossing $500,000 annually to pay $1.60 per hour. This affected fewer than 2 percent of all public eating places in 1968 and, when in 1969 the gross ceiling was lowered to $250,000, still only about 5 percent of eating places were affected. Some States do have their own minimum wage laws, however, that might also affect the entrepreneur's labor costs.

4. *Competition*

The mobile catering industry has a real competitive advantage over other forms of fast food facilities, since by definition it fulfills a food service need, the response to which has already proven uneconomical for other types of food services. To this extent other types of food service do not pose a competitive threat since they may not be easily substituted for the mobile catering service. Mobile caterers are competing in a market that again is relatively captive and where the demand is for low-priced, fast foods, or where the slant is toward necessity and convenience in away-from-home food service. However, competition within the industry is often quite severe, especially for establishing ownership and control of new routes. Getting control of a route as an independent may be quite difficult, since existing operators are constantly on the lookout for new market areas and may be well informed far enough in advance to lock out prospective newcomers.

Good service and quality and variety of prepared food products remain the most essential competitive factors within the industry. The most essential and recent form of change or development in the industry is menu cycling and innovative, prepared food products. The operator of either an independent or multiroute company with its own commissary operation, who is perceptive enough to successfully introduce new products marketed by prepared food manufacturers and the frozen-food industry, will be ahead in providing better quality and variety to customers. An awareness of developments in associated industries is a basic facet of competition.

However, other fast food businesses are increasingly interested in diversifying into the mobile catering service. Industry sources indicate that vending companies may be the most immediate competitive threat; many have already expanded to include mobile catering in their total operations. The vending companies apparently recognize advantages in having both internal and external sales locations, for when a potential market need cannot be satisfied by installing vending machines, it can be served by mobile catering, which offers both mobility and low capital investment. On the other hand, mobile catering companies have shown distinct disinterest in diversifying into vending operations. In fact, in 1969 several mobile caterers with vending machine operations completely divested themselves of their vending operations. Most mobile caterers involved in other food service activities are in party and special function catering.

Almost all of the medium and large companies are corporations. Small independents are for the most part proprietorships (and to a lesser extent corporations). Franchising plays a continually more important role in the fast foods field, but it has not lent itself to mobile catering as well. This may be attributed to the fact that the increasingly important leasing arrangements prevailing in the industry reduce the appeal of the franchise form of business organization somewhat.

5. *Ease of Entry*

Entry into the mobile catering industry depends on several factors:

1. Licensing requirements: As a rule, each State has its own set of minimum health and sanitation laws and the associated licenses and permits required to begin and maintain operations. Permit fees in the food industry generally range from $1 to $60 per unit.

2. Capital requirements: Initial capital requirements may be quite low if a prospective entrepreneur is willing to begin at a very modest scale. The cost of catering truck, route, and beginning inventory are the major expense factors.

3. Locational requirements: The mobile catering industry's greatest advantage is the mobility factor. Easy access to a commissary location is extremely important both in the case of the operator with one or more commissaries and in the case of the one-truck independent. Usually a commissary should be located in as central a position as possible relative to the total number of routes.

The development of a route is an essential prerequisite to the establishment of a mobile catering business. The new entrepreneur in many cases does not even purchase capital equipment until he has had the opportunity to cover a route for several days, assuring himself of expected revenues. Existing operators are sure to have a strong market position in established market areas. While established routes are available for lease or purchase in most cases, the best, least-cost opportunity for newcomers may be in the development of new routes as new construction sites and industrial complex locations spring up. However, intense competition may be expected when new markets of this nature become available.

6. *Capital Requirements*

The four major items included in the initial capital investment for a mobile catering operation include:

1. Cost of route(s) (buy, lease, etc.),
2. Cost of truck(s),
3. Cost of commissary facilities,
4. Warehousing and office space.

In addition, whether independent or franchised, the operator's cash investment will typically require:

- Lease deposit (usually 2 to 4 months' rent);
- Operating capital sufficient to cover operating expenses for 3 to 6 months;
- Initial food inventory;
- Equipment financing for the commissary—a minimum down-payment of 25 percent and 3 to 5 years to pay off.

Route values are assessed on the basis of daily sales. Currently, for every $1 of daily sales revenue a route draws a market value of from $40 to $50. A good route area ideally should be 20 to 30 miles one way from point of supply pickup. A good 8-hour working route will require a 10- to 12-hour day and have 40 to 50 stops along a 15- to 20-mile run.

The complete unit for a mobile catering truck costs between $6,000 and $8,000. These trucks are generally financed over a 3-year period, but some security is often required by financiers due to the

single purpose nature of the vehicle. On the average, truck chassis are retired after 4 years, the bodies every 6 years; tire replacement varies from 20,000 to 25,000 miles.

In addition to trucks, warehousing, and office space, companies intending to own and operate one or more commissaries to supply their routes will require a minimum of 1,000 square feet for kitchen, preparation, and packaging. Costs approximate those of a regular food service kitchen facility, which runs between $15 and $25 per square foot. Kitchen equipment costs average $25 per square foot of kitchen area. The following types of equipment were most frequently included in equipment buying plans for 1969:

Slicers
Mixers
Ovens
Grills
Coolers
Compressors
Sandwich wrapping units
Walk-in boxes
Filling machines
Coffee makers
Walk-in freezers

This equipment is considered basic to the operation of a commissary. Analysis of the failure of food service ventures indicates that one of the major factors is undercapitalization. In many cases lenders require that the prospective businessman have 35 percent to 50 percent of the total cost of the initial investment in cash before the balance of the capital requirement is made available. This is often the minimum extent of participation—equity or risk capital—expected for the operator to obtain financing.

7. *Profitability*

The mobile catering company has three main sources of revenue:

1. Commissary sales of drivers (food and supplies)	60% to 70%
2. Truck lease to drivers (typically $12 to $30 per day including gas, insurance, and maintenance)	20% to 25%
3. Route lease to drivers (route rental frequently based on 5 percent to 10 percent of truck's daily gross, or on percentage of food purchased from commissary)	15% to 20%

Industry sources determine that a fairly typical annual return on investment figure is 10 percent. The following industry operating ratios are based on a survey made by Vend magazine and reflect the experience of many mobile catering companies:

	Average for Responding Companies	Range for Responding Companies
Gross sales	100.0%	
Operating expenses		
Cost of goods sold (including commissary overhead)	52.7	23% to 77%
Gross profit	47.3%	
Other expenses		
Driver salaries and commissions (2)	17.3%	5% to 24%
Office and general overhead (including salaries)	10.2	2% to 31%
Truck depreciation	3.6	1.8% to 4.0%
Truck maintenance (including downtime)	3.9	0.1% to 5.0%
License fees	1.0	0.01% to 2.1%
Other depreciation (equipment and buildings)	2.9	1% to 10.4%
Building rental	2.9	1% to 10%
Sales taxes	2.8	0.2% to 4.75%
Total	44.6%	
Projected net profit (before State and local income taxes)	2.7%	

Operators leasing all routes to independent contractors are primarily involved in the preparation and sale of merchandise to truck drivers. This type of operator shows considerably higher product costs than a company that employs its own drivers and sells its own products at retail. Generally, the larger the company the higher the product cost among those companies that do employ their own drivers. Companies with less than 10 routes tend to have lower product costs of from 24 percent to 48 percent, while companies with more than 10 routes tend to experience product cost from 52 percent to 54 percent. The median for salaries and commissions is 18 percent; this cost figure shows rather wide variations within the industry.

Average industry gross profit per year is $42,500, with an average net profit of from $7,000 to $9,000 including owner's compensation. For the independently owned, one-truck, one-route operation, the following are ranges for average operating ratios:

Gross sales	100%
Food and supplies	55% to 60%
Maintenance (including downtime), repairs, and insurance	10% to 15%
Depreciation, interest, taxes and licenses	1% to 3%
Net profit, including owner's compensation	27% to 32%

Trucks are usually depreciated over 5 years.

8. *Effects of Outside Factors*

There are several factors external to the industry which greatly affect sales revenue. The mobile catering industry is greatly influenced by weather hazards, which can limit and even prevent sales. Also since construction sites account for over 15 percent of the market, construction slow-downs in the shortrun can have a serious effect on the fortunes of a company. From a long-range point of view, economic and industrial slow-downs may directly affect the mobile catering industry, in that new industrial locations and complexes potentially yielding new routes and greater sales are to some extent diminished.

Another factor greatly influencing mobile catering is the product research and development in the food manufacturing industry, particularly in frozen and instant foods, which have contributed toward improved quality foods with lower preparation times.

III. FEASIBILITY ANALYSIS

A. Key Factors

The factors of major importance in terms of contribution to successful performance in the mobile catering industry are the following:

1. *Management*

An independent one-truck type operation in which food products are purchased from an existing commissary requires less knowledge and experience than would be necessary in a company with one or more commissaries, multiroutes and a truck fleet to operate. The one-truck independent with sufficient risk capital to invest in a route and truck, however, should at least be informed as to what constitutes a good route, what the relative operating costs are likely to be, and what types of food products are most likely to be successfully sold. In addition, basic salesmanship and public relations abilities are equally important when this type of direct sales contact is made repeatedly each day. While these same requirements apply to larger operations, a much higher technical competence is needed for commissary operations and fleet management. Knowledge of commercial kitchen equipment and layout, menu planning, food product purchasing and processing, as well as the managerial functions, including traffic management, is needed. In all scales of operation a willingness and ability to cope with the intense competition frequently characteristic of the industry is also a basic ingredient of success. A prospective newcomer to the industry should be certain of a high degree of motivation well in advance of actual investment.

2. *Service*

Once routes have been established through promotion efforts, a high level of quality food products and service is absolutely essential to the maintenance of customers. This, of course, is due to the fact that most agreements with customers are merely verbal. This has the effect of making ownership of routes vulnerable to "pirating" by other operators, especially when service begins to drop off. For the most part, foods served by mobile caterers are convenience items, and, if the operator does not make his products available at the times customers want them, another operator will. Another aspect of service is menu variety. The operator who relies on cycling is capable of marketing much more interesting food products to his customers.

3. *Location*

Location is important especially where growth patterns for construction and industrial sites are concerned. The operator interested in expansion must be well informed about such development if he expects to arrive there first and secure new markets.

B. **Minority Ventures**

Mobile catering can be a particularly suitable business opportunity for a minority entrepreneur. It lends itself well to low capital investment and requires little experience. An associated advantage in this instance may be the better market acceptance of a minority entrepreneur in a community area where the majority of residents are members of the minority group to which the entrepreneur belongs. The entrepreneur in this case would also have some awareness of the types of food products that would be likely to have the greatest market acceptance and highest demand.

The bulk of the markets, however, will be places of employment such as corporations and construction sites. The minority entrepreneur must usually sell to the general market, therefore, and he is likely to have little comparative advantage in lining up routes. The beginning entrepreneur may find it useful, then, to obtain an existing route (that may feature a fairly high portion of minority workers) and to obtain experience in serving this market before attempting to establish a new route. Service and food quality will in any case be the basis of competition.

C. **Projection of Attainable Returns**

A description of the business and projection of attainable returns are furnished for a one-man independent operation and a small company operation. These examples are meant to be representative of each of two common forms of businesses in the industry and may be particularly illustrative of returns attainable by minority ventures.

1. *One-Man Independent Operation*

This type of operation would generally involve a single truck purchased at a cost of about $6,000. The average route, which would itself have a marketable value of approximately $6,800, would be developed and owned by the operator. The workweek would generally entail 5¾ working days of 8 to 10 hours each day during which 43 stops are made. The route is expected to yield approximately $170 in sales revenue each day. Total initial capital requirement would be about $10,000. Startup capital is obtained from both equity and debt sources; the entrepreneur obtains a $5,000 bank loan on his personal guarantee and finances the purchase of his truck over 3 years. Capital requirements are broken into the following categories: Downpayment on truck, $1,800; food, supplies, equipment, $4,000; operating capital and licenses, $4,200. First year projections are as follows:

Gross sales	$44,200	100%
Food and supplies	25,600	58
Butane, oil, and gas	1,800	4
Repairs, maintenance, and insurance	3,500	8
Depreciation, interest, taxes, and licenses	1,300	3
Net profit before tax (including owner's compensation)	$12,000	27%

The profit earned in this operation is representative of only one hypothetical situation and may vary widely, depending on a variety of factors both internally and externally related. While prior experience in the field is not essential on this level, day-to-day observation of commissary operation will contribute toward accumulating technical knowledge if and when expansion should be considered. This does not, however, eliminate the need for careful planning and good management from the beginning. A high level of service will have to be maintained to assure sales and to retain the route.

2. *Small Company Operation*

This type of operation would own and operate six routes and a commissary. The company would have the option of either leasing its routes or hiring its own drivers, and in this case the company hires its own drivers. The total labor requirement would generally be at least two managerial level employees (presumably at least one would be an owner), one maintenance employee, and three commissary employees. The use of one commissary for six routes requires a fairly central location, which means being situated in an area highly competitive with other mobile catering companies. An emphasis on service and menu cycling becomes increasingly important in this type of situation. Leasing of a building with sufficient parking area for the six trucks and at least 1,000 square feet of food preparation area, plus an additional 400 square feet for warehousing and a small office area, would be required.

Capital requirements for this operation would be approximately the following:

Downpayment on 6 trucks	$ 18,000
Initial food inventory	10,000
Lease deposit	1,800
Licenses, etc.	2,000
Building preparation and adaptation, office equipment	20,000
Operating capital	30,000
Food preparation equipment financed over 5 years	25,000
	$106,800

The capital structure of such a business might be as follows:

Owner's equity	$ 43,000
Bank loan with 90 percent SBA guarantee	63,800
	$106,800

Trucks would generally be in use 6 days a week, 8 to 10 hours per day, with 45 stops per day per truck. Estimated daily sales revenue per truck ranges from $170 to $175.

Projected sales revenues and operating costs for the 1st year are as follows:

Gross sales	$324,500	100%
Cost of goods sold (including commissary overhead)	172,000	53
Gross margin	$152,500	47%
Operating expenses	$139,500	
Driver salaries and commissions		18%
Office and general overhead (including salaries)		10
Truck depreciation		3
Truck maintenance		4
License fees		1
Depreciation—equipment and building		3
Building rental		2
Interest—trucks		2
Net profit, before taxes (including owner's compensation)	$ 13,000	4%

This net profit is only a single, though representative, example of what might be earned in the 1st year for an operation of this nature and size.

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